



American Insurance Association

**STATEMENT
OF
AMERICAN INSURANCE ASSOCIATION
ON
THE CRITICAL IMPORTANCE OF REFORM TO THE
PRESERVATION OF MICHIGAN'S NO-FAULT SYSTEM**

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The American Insurance Association (AIA) is comprised of insurers that write every kind of personal and commercial insurance in every State and globally, including companies with a long term commitment to the welfare of Michigan's families and businesses. AIA was one of the original supporters of no-fault and I have personally been involved in virtually every no-fault debate since the 1980s. We much appreciate the opportunity to share this experience and hard earned expertise with you at this critical time.

Michigan's No-fault System Is Demonstrating Severe and Growing Stress.

Professor Tennyson has provided a thorough review of costs and other factors stressing the Michigan no-fault system. She pointed especially to the rise in no-fault injury costs largely driven by large claims and rising premiums.

Unfortunately, the negative cost trends that she testified to are continuing to the present. For example, the latest data indicate that

the average cost of a Michigan PIP claim for the year ending in the second quarter of 2011 (the latest period for which statistics are available) was \$36,786, compared to \$28,190 in the year ending in the second quarter of 2007. This 20%+ increase in costs is reflected in a 20%+ increase in “pure premium”, the raw material out of which the ultimate premiums are calculated.

The premiums people pay do reflect these growing costs and as Professor Tennyson testified, Michigan has gone from the 18th most expensive to the 11th most expensive auto insurance State. Further, due to the current benefit structure, there is clear evidence of highly unusual and costly utilization of certain types of benefits, especially attendant care.

The rise in costs and the more expensive resulting premiums are also a factor in making auto insurance less generally affordable, apparently causing increasing numbers of motorists to drive uninsured. The Insurance Research Council indicates that Michigan now has 19% of its motorists (nearly one in five) driving uninsured, far higher than the national average. Of course, not only do uninsureds deprive themselves of coverage but they increase costs for all other motorists.

With high levels of unemployment in Michigan, providing cost saving reforms that still allow people to buy into a generous auto insurance benefit system, as this legislation would do, is particularly important. Otherwise, even more uninsured driving will result.

Finally, the negative impact on Michigan’s employers of the high and rising no-fault costs, is also a critical concern. The Michigan Chamber of Commerce has spoken clearly to this issue. At a time when Michigan business must become far more competitive, these higher costs

actually push in the opposite direction. It is reasonable to assume that the Chamber best represents the interests of Michigan's businesses and fully comprehends the proposed legislation's impacts, which it deems to be positive for Michigan's businesses, contrary to some prior testimony.

Balanced Reforms Can Stabilize and Preserve the Michigan No-fault System.

After examining the problems that have emerged in the Michigan system, we urge you to consider some reforms that will reverse the current slide into a "death spiral" of rising costs, rising premiums, rising affordability problems and rising anger from the public. In our view, the objective should be to constrain runaway costs while assuring as many benefits as possible. H.B. 4936 does this in two principal ways: providing for high but not unlimited over-all benefits *coupled with* cost containment measures to some particularly problematic coverages under the over-all limit.

Unlimited benefits are very problematic because they directly fund extraordinarily high levels of costs *and* embed a degree of uncertainty that also must be priced. To answer this fundamental cause of stress in Michigan's system, H.B. 4936 provides for a minimum of \$250,000 in benefits up to \$5 million, at the consumer's option. When the benefit levels provided under H.B. 4936 are compared to those in other states, this fact emerges: no other State provides more benefits at even the minimum mandatory level and no other State requires the offering of anywhere near the offers of higher limits under H.B. 4936, either. So after enactment of H.B. 4936, Michigan will still have the highest level of benefits of any state and a level of benefits that far exceeds that

provided by the vast majority of states. (Most states, by the way, have *no* PIP mandates and those that do are usually *much* lower).

H.B. 4936 also focuses attention on some excessive cost drivers within the over-all limits. It does so by tightening definitions and limits of attendant care for example, and by introducing proven cost restraints to fight fraud and over-utilization, such as fee schedules.

Failing to Now Address Well Documented Problems Will Increase Pressure to Repeal the No-fault System.

A number of states have permanently repealed their no-fault systems, among them are: Colorado, Connecticut, Georgia and Nevada. Pennsylvania repealed its no-fault system then went back to a much modified hybrid approach, some years later, along with medical cost containment provisions. New Jersey's auto insurance system nearly collapsed, due to rising costs, growing residual market deficits, a drastically shrinking number of insurance companies and extreme public anger directed at the State's policymakers. It took several decades to achieve stability, which included over-all benefit limits and options and medical cost reduction measures, and those efforts continue even to this day with regulatory reforms that are on-going. Finally, Florida, even as we speak, is seriously considering the repeal of its no-fault system. Contrary to what you heard on Tuesday, the governor has endorsed making their PIP coverage optional, due to continuing problems with their no-fault system.

My experience is that every case of repeal or near repeal in which I have been involved, was preceded by extensive efforts to achieve moderate reforms that failed. Without those reforms, costs continued to rise as did public anger and repeal became the preferred option.

Opponents to H.B. 4936 argue for preserving Michigan's no-fault system while opposing the very cost-saving reforms that would actually serve most effectively to accomplish that. We don't disagree with an objective of preserving a good no-fault system. The evidence, however, and the experience in other states in similar situations, demonstrates that the only way to achieve that objective in Michigan's circumstances, is to enact the kind of balanced and effective reforms, exemplified by H.B. 4936. If we fail to address the large and growing problems in Michigan's no-fault system through such reforms now, we predict that the State will soon be confronted with even deeper problems and growing calls to repeal the entire system.

Finally, we very much share concerns of the opponents for the care of injured victims. But the fact is that seriously injured victims receive effective treatment in States that do not have Michigan's no-fault system. If they did not, we would expect a nation-wide outcry for a system like Michigan's. That is simply not the case.

Conclusion

There are obvious cost pressures and other serious stresses that have emerged in today's Michigan no-fault system. If we fail to address them now, through effective compromise reforms, continued deterioration will begin a "death spiral" for which total no-fault repeal will become a much more viable solution.